

## **Mercury Emissions from Coal-fired Power Plants**

### **Intra-State Trading: Yes, No, Maybe?**

#### ***Options Summary***

One of the options under consideration for the Washington mercury rule is intrastate trading of mercury. Under the current draft rule being considered, Washington State will not be participating in the national trading program for mercury emissions from coal-fired power plants after 2012. Therefore, the state must design its regulatory non-trading program to ensure that the mercury emissions from these sources remain at or below the state's 2018 emissions allowance of 156 pounds per year. The realistic scenario in Washington is that unless specifically addressed in this rule, the bulk, if not all, of the 2018 emissions allowance will be used by TransAlta and Pacific Mountain Energy Center. This would effectively curtail construction of new coal based electric power generation. An option to provide for future growth of these units would be intrastate trading between facilities. Under this scenario, a new or existing facility could buy the mercury credits it needs to operate from an existing Washington power plant.

#### **Assumptions**

- Allocations to individual plants or units are limited so that the total will stay within the state's 2018 emissions cap. Since we must stay beneath that amount for intrastate trading, the risks associated with national trading – e.g., hotspots, increased in state mercury deposition, would not be as significant.
- A new project or expansion can only happen if mercury emissions allocated to existing projects are reduced.

#### **Questions to ponder**

- Are we (or should we be) concerned with the continuation or generating of a hot spot for mercury deposition?
- Would legislation be required to implement intrastate trading or can we use an existing section of law as authority?
- Who would manage the system?
- What would it cost to implement a trading program? Agency costs and business costs --
- Should there be a fee for such a system?
  - If so what would be the basis for the fee?
  - What services would it cover?
  - Would it be subject to appropriation, or be a simple fee available for use on payment?
- Are there any statutory constraints on the ability of the state (Ecology or EFSEC) to charge fees to manage a trading system?
- Would there be an offset required for each transaction?
  - Would a trade be required to 'retire' emissions at a ratio above the flat transaction needs? i.e., retire 11 credits for every 10 purchased

- Would we want to design a system that allows for short-term exchanges (like the federal Acid Rain Program) or solely for a permanent transfer (similar to the current Emission Reduction Credit program in [WAC 173-400-131](#) and [-136](#))?
- Banking: Does operating under the state mercury cap make this possible?
  - We think EPA would look at the state on an annual basis for making the cap. Would EPA accept future years above the cap in exchange for early years far below the cap?
- What is mechanism to access a credit? Is it a private agreement between the parties or is the state involved to ensure there are not adverse environmental impacts or ensure a credit is not sold more than once?
- Plant downtime: Is an emission reduction generated by the unit being out of service available to sell? Or does it matter how the credit is generated?
- Would anyone be allowed to purchase emissions credits?
- Should we allow new plants regardless of the available mercury emissions and prorate the mercury emissions in a manner similar to the CAMR structure? The draft rule allows new units if there is an available mercury emissions equal to the capacity of the proposed new plant.

#### Examples of situations where organizations would want to trade

- ✓ Any situation where the perceived cost of installation and operation of emission controls exceeds the cost of purchase of emission credits on the market.
- ✓ Situations where it is clear that some units can have their emissions reduced for lower cost than other facilities, allowing the easy to control facilities to over-control in a cost effective manner. The 'extra' emission reductions can then be sold or traded. Trades could be internal to a single plant, internal to a single company operating at multiple sites in the state, or to other companies in the state.

We will bring examples of other states contemplating intrastate trading to the meeting.